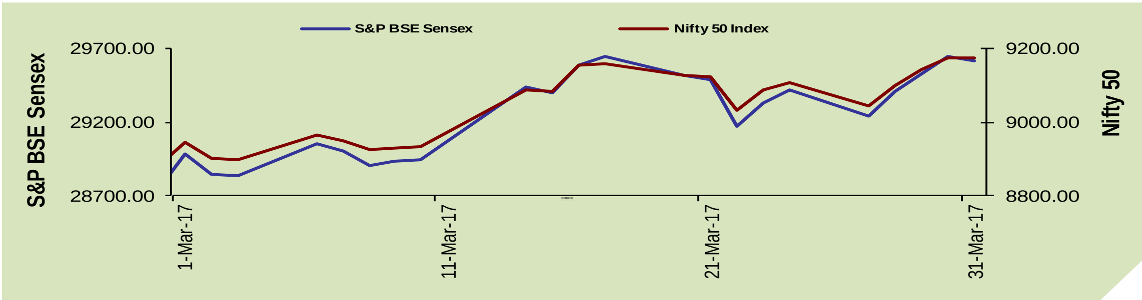
Investment newsletter March 2017

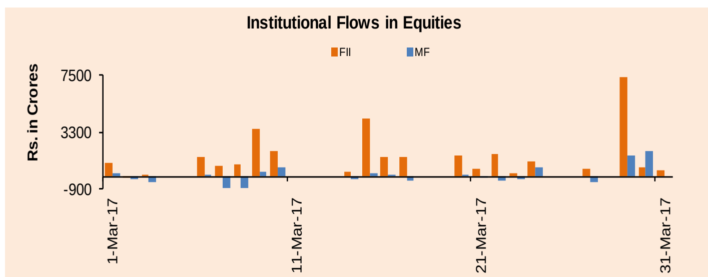
Monthly Equity Roundup – March 2017



March 2017 – Review

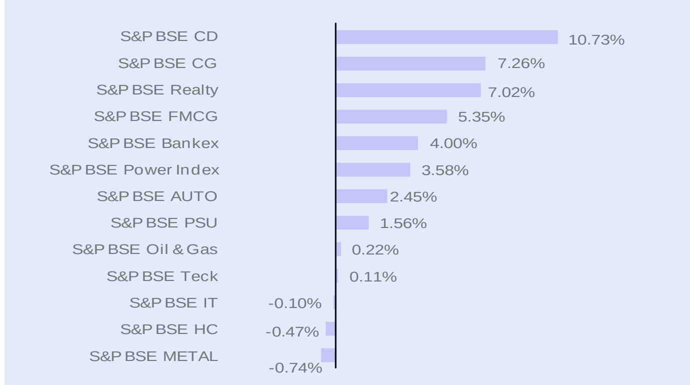
Indian equity markets rose during the month with Sensex and Nifty surpassing the 29,000 and 9000 marks, respectively. The promising outcome of the states' assembly elections, coupled with the latest developments on the implementation of Goods & Service Tax Act were the key triggers for the market rally during the month. However, some stock-specific seen later during the month restricted gains to an extent. Key benchmark indices S&P BSE Sensex and Nifty gained 3.05% and 3.31% to close at 29,620.50 and 9,173.75, respectively. S&P BSE Mid-Cap and S&P BSE Small-Cap moved up 4.02% and 5.43%, respectively.

Buying interest found support from higher than expected gross domestic product data for 3QFY17. The data indicated that private final consumption and manufacturing sector expanded in the third quarter despite demonetization. Market gained further after the Nikkei India Manufacturing Purchasing Managers' Index rose for the second consecutive month and stood at 50.7 in Feb 2017 from 50.4 in Jan 2017.Benchmark indices touched two-year highs amid positive vibes generated by the outcome of state assembly elections particularly in the state of Uttar Pradesh. Victory of the ruling party is seen as an affirmation of the government's policies, especially since the assembly polls were held at the backdrop of demonetisation. Outcome of the election results generated positive sentiment around implementation of different government reforms in the future. Another major boost for the markets was the growing endeavour to move closer towards launching the long-awaited Goods and Services Tax (GST). Initially, a panel of Central and state finance officials finalized two key bills to be put before Parliament. Later, the GST Council gave its nod to all the five draft legislations needed for implementation of the unified indirect tax. Towards the month-end, the finance minister introduced legislations on GST in the lower house of Parliament for approval. On the penultimate session, the Lok Sabha or the lower house of the Parliament approved four supplementary Bills of Goods and Services Tax following several hours of debate. This paved the way for the launch of GST from Jul 1, 2017.



However, certain stock-specific weaknesses across different sectors restricted market gains during the month. Worries over regulatory actions by the U.S. Food and Drug Administration against specific domestic pharma companies dented market sentiment. Selling pressure was also witnessed in the stocks of a major telecom company following the news of its amalgamation with one of its industry counterparts. Bourses witnessed additional pressure after a global financial institution downgraded the rating of some of the major Indian private sector lenders.

On the BSE sectoral front, barring S&P BSE Metal, S&P BSE Healthcare and S&P BSE IT, all the indices closed in the green. S&P BSE Consumer Durables was the top gainer, up 10.73%, followed by S&P BSE Capital Goods and S&P BSE Realty, which went up 7.26% and 7.02%, respectively. S&P BSE FMCG and S&P BSE Bankex rose 5.35% and 4.00%, respectively. Consumer durable sector rose on the back of optimistic outlook for the industry's growth. The sector is likely to grow despite surge in raw material prices. The economic buoyancy is expected to keep demand strong and help the industry maintain its growth rate. Banking sector rose on the back of reassurance by the finance minister of a solution to tackle the non-performing asset crisis.



Global Economy:

U.S. President's scheduled address before a joint session of Congress kept investors worried initially. The cautiousness was taken care of as the President's speech instilled confidence among investors. Markets also welcomed improved jobs data and the Fed's decision to raise interest rates by 25 bps. However, in the later phase, markets treaded cautiously after the U.S. President failed to pass a key health-care bill, raising concerns over the President's tax reform and increased infrastructure spending. Sentiment also remained muted as the finance ministers at the G20 meeting failed to agree on a commitment to keep global trade free and open.

Economic Update

IIP grew 2.7% in Jan 2017

Government data showed that the country's industrial output grew 2.7% in Jan 2017 compared with a contraction of 0.1% in Dec 2016 and a contraction of 1.6% in the same period of the previous year. The manufacturing sector grew 2.3% in Jan 2017 compared with a contraction of 2.9% in the same period of the previous year.

CPI rises to 4-month high at 3.65% in Feb

India's Consumer Price Index (CPI)-based inflation accelerated to a four month high of 3.65% during Feb 2017 from 3.17% in the previous month, majorly contributed by food prices. Consumer Food Price Index rose at a faster pace to 2.01% in Feb from 0.61% in Jan 2017.

WPI rises to 6.55% in Feb 2017

India's Wholesale Price Index (WPI)-based inflation rose at a faster pace to 6.55% in Feb 2017, compared with 5.25% in the previous month and 0.85% contraction witnessed in the year-ago period. Food price inflation rose 2.69% in Feb 2017 as against 0.56% contraction in Jan 2017 and 3.91% rise recorded in the year-ago period. Meanwhile, fuel price inflation stood at 21.02% in Feb 2017 against 18.14% in Jan 2017 and contraction of 7.06% in the year-ago period.

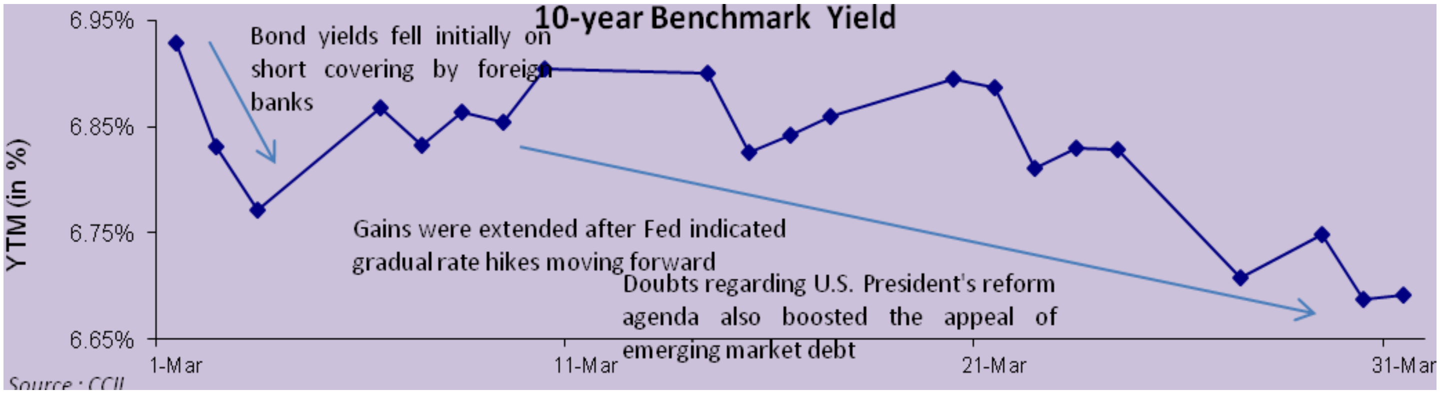
Core sector output grew 1% YoY in Feb 2017

Government data showed core sector output grew 1% YoY in Feb 2017, much slower than 3.4% recorded in the previous month. Infrastructure sector grew at its lowest level in at least 13 months. The reason behind the fall was slower growth in electricity and steel output, and contraction in production of crude oil, natural gas, refinery products, fertilizers, and cement sector.

Outlook

The ruling party's victory in the latest state assembly elections has strengthened the government's ability to reform the economy and tackle black money. Investors are expected to react positively in the near term, paving the way for new all-time highs for Sensex and Nifty. With the passage of the four legislations related to GST in the lower house of the Parliament, investors will be closely following the next stage of implementation of the historic bill.During the month, a private weather forecaster predicted that India will likely receive below average rainfall this year, due to an evolving El Nino. Investors are likely to keep a close tab on further developments on the same. As the Indian economy is heavily dependent on agriculture, below-normal monsoon may prove to be worrisome. Global cues are also likely to impact investor sentiment. With the initiation of the Brexit process, investors will closely assess its impact on the domestic economy. The U.S. Fed's interest rate stance will continue to impact markets. Additionally, investors will closely follow the strategy to be adopted by the U.S. President on policy implementations in the near future.

Monthly Debt Roundup – March 2017



Fixed Income Overview

Particulars	Mar-17	Feb-17	Mar-16
Exchange Rate (Rs./$)	64.84	66.74	66.33
WPI Inflation (In %)		6.55	-0.45
10 Yr Gilt Yield (In %)	6.69	6.87	7.46
5 Yr Gilt Yield (In %)	6.86	6.99	7.52
5 Yr Corporate Bond Yield (In %)	8.16	7.45	7.41

Source: Reuters, Bharti AXA Life Insurance

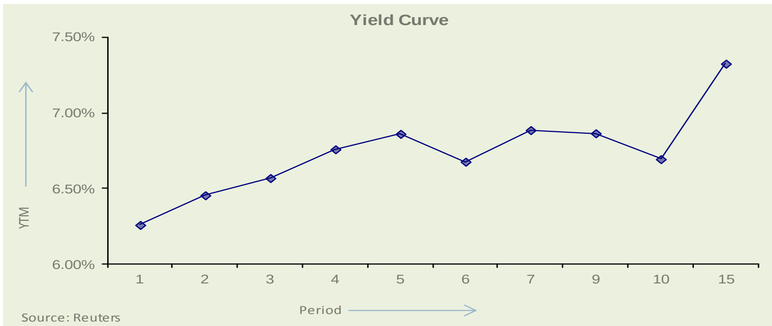
Bond yields fell during the month under review after the U.S. Federal Reserve (Fed) in its monetary policy review maintained guidance of the rate hike trajectory projected in Dec 2016, while increasing interest rates as expected. An unexpected decline in core retail inflation in Feb 2017 further supported market sentiment. Short covering by banks earlier during the month and doubts over the U.S. President's reform agenda also boosted emerging market debt. However, gains were capped on reports that the government is considering taking steps to absorb excess liquidity in the banking system.Yield on the 10-year benchmark bond (6.97% GS 2026) fell 18 bps to close at 6.69% from the previous month's close of 6.87%. During the month, bond yields moved within a wide range of 6.67% to 6.93%.

Bond yields shot up initially on concerns that the Fed will increase interest rates in its monetary policy review due on Mar 15, 2017. Concerns of protectionist policies from the U.S. President also weighed on the market sentiment. However, the trend reversed and bond yields came down as foreign banks resorted to short covering. Short covering was an outcome of state-run banks not lending securities in the repo market ahead of the 10-year paper's coupon payment, scheduled on Mar 6, 2017.Gains were short lived as bond yields went up after the Fed Chief indicated of a possible rate hike in its upcoming monetary policy review. Supply of state development loans and UDAY bonds also added to the pain. Meanwhile, investors preferred to remain on the sidelines ahead of the outcome of the Fed's monetary policy review and the release of crucial retail inflation data for Feb 2017. The domestic debt market later received support as bond yields came down following an unexpected decline in core retail inflation in Feb 2017, even though retail inflation rose to a four-month high in Feb. Market experts had pegged core inflation to fall to around 4.80%-4.90% in Feb 2017 from nearly 5.10% in Jan 2017.

On the macroeconomic front, Consumer Price Index (CPI)-based inflation or retail inflation accelerated to 3.65% during Feb 2017 from 3.17% in the previous month, majorly contributed by food prices. Wholesale Price Index (WPI)-based inflation rose at a faster pace to 6.55% in Feb 2017, compared with 5.25% in the previous month and 0.85% contraction witnessed in the year-ago period. Industrial output grew 2.70% in Jan 2017 compared with a contraction of 0.10% in Dec 2016 and a contraction of 1.60% in the same period of the previous year. India's trade deficit expanded to $8.90 billion in Feb 2017 from $6.57 billion in Feb 2016 due to faster rise in merchandise imports compared with exports. While exports grew 17.48% YoY to $24.49 billion, imports increased 21.76% to $33.39 billion in Feb 2017. India's current account deficit

(CAD) widened to $7.9 billion (1.4% of GDP) in Q3 of FY17 from $3.4 billion (0.6% of GDP) in the preceding quarter and $7.1 billion (1.4% of GDP) in the same quarter of the previous fiscal.

RBI conducted auctions of 91-, 182-, and 364-days Treasury Bills for a notified amount of Rs. 50,000 crore in Mar 2017 compared with Rs. 40,000 crore in the previous month. The cut-off yield stood in the range of 5.82% to 6.26% during the month under review compared with that of the previous month when the cut-off yield was in the range of 6.11% to 6.30%. RBI also conducted a single auction of state development loans for state governments for a total notified amount of Rs. 40,382.30 crore compared with the previous month when the total notified amount was Rs. 45,936 crore. The accepted amount stood at Rs. 37,590.80 crore compared with the previous month when the amount accepted was Rs. 46,494 crore. The cut-off yield ranged from 7.59% to 8.05%, while in the previous month, the cut-off yield was in the range of 7.51% to 7.88%. Jharkhand and Karnataka attracted minimum yield while Jammu & Kashmir attracted maximum yield. Data from RBI showed that corporate firms in India raised $1.01 billion via External Commercial Borrowings (ECBs)/ Foreign Currency Convertible Bonds (FCCBs) and $1.22 billion via Rupee Denominated Bonds (RDBs) in Feb 2017.



<u>Spread Analysis</u>:

Yield on gilt securities (annualised) fell across maturities in the range of 5 bps to 21 bps barring 2- to 4-year maturities which increased in the range of 1 bps to 5 bps. The minimum contraction was witnessed on 19-year paper and the maximum on 14-year paper. Yield on corporate bonds increased across 1- to 4-year maturities in the range of 2 bps to 15 bps and contracted across the remaining maturities in the range of 4 bps to 15 bps. Spread between AAA corporate bond and gilt expanded across maturities in the range of 3 bps to 12 bps, barring 6- and 10-year maturities, which contracted 5 bps and 3 bps, respectively.

Global

The Fed in its monetary policy review increased the benchmark interest rate by 25 bps to a range of 0.75% to 1%, as anticipated. Fed projected two more rate hikes in 2017, three in 2018 and 2019, similar to the prior forecast made in Dec 2016. The Bank of England in its monetary policy review voted 8-1 for the first time in eight months to keep interest rates at its record low of 0.25%. The Bank of Japan also maintained status quo on its monetary policy. The People's Bank of China raised interest rates by 10 basis points on both medium-term lending facility loans and its open market operation reverse repurchase agreements to tackle escalating debt and counter downward pressure on yuan. Meanwhile, Britain Prime Minister invoked the Article 50 of the Lisbon Treaty to start the formal process of Britain's exit from the European Union.

Outlook

Bond yields eased during the month under review after the Fed in its monetary policy review indicated to raise rates at a slow and steady pace in the future. Moving forward, bond yields will be dictated by what stance and guidance the Monetary Policy Committee adopts in its upcoming monetary policy review, due on Apr 6, 2017. RBI had forecasted that inflation may increase in the second half of the fiscal and has accordingly changed its stance on monetary policy from accommodative to neutral. The monsoons and its subsequent impact on inflation will also be a key factor. Initial forecasts suggest that monsoon could be below normal. Furthermore, the implementation of Goods and Services Tax (GST) is slated on Jul 1 and there are concerns regarding its execution and that it can stoke up domestic inflationary pressures. Incidentally, both events will overlap in July, which, in turn, could trigger volatility in the debt markets. At the global level, the outcome of French Presidential elections, policies adopted by the U.S. President, and oil prices will dictate the bond yield trajectory in the coming months. Besides, the movement of the rupee against the greenback and stance adopted by foreign portfolio investors will remain in sharp focus.